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SPEAKERS AND SLIDE PRESENTATIONS BY

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P R O C E E D I N G S

MR. LAY: Good morning. And I know we still have a lot of people coming in, but I think we need to move ahead. I know everybody's got a fairly tight schedule, and today for the first time we are streaming this meeting to a number of other remote locations, particularly London, New York, Portland. I guess Calgary, also, is included in that as well as back to some of the desktops even over at our headquarters building where we're using our new communications capabilities, and I want to congratulate both Enron communications group as well as our global technology group that's made this possible.

This morning we're going to talk about the financial highlights and recent developments in the company. I'll cover that here at the outset, then we'll have a little business unit update. Jeff Skilling will handle that, and then Joe Sutton will come up to handle some of the people in culture activities that we have underway which are very, very critical to our success. And I'll wrap it up. And, as usual, we'll have our Q and A session.

We have some questions that were submitted in advance, which kind of lets us at least prepare some answers for them. Sometimes we use those prepared answers,

sometimes we don't; but, of course, we very much welcome the questions from the floor. And I think you all have cards on the chairs nearby, so be thinking if, during the presentation, you want to ask something, go ahead and jot it down and we'll get to that right after the presentation.

Indeed, 1999 has turned out to be another great year for Enron. Thus far this year our revenues are up about 24 percent to just a little bit less than \$30 billion in the first three quarters. We'll certainly end up the year north of \$40 billion, probably somewhere in the \$45 billion range, and we do think that this does reflect the underlying growth in the company. Obviously, the net income and EBIT are even more important, but certainly revenue continues to reflect how rapidly we're growing our various markets around the world.

And, of course, net income has grown very strongly this year, up about 32 percent, just a little bit less than \$700 million after tax, net income for the first nine months. But we have somewhat more shares outstanding because of stock issues to raise capital to finance our growth businesses. So earnings per share is up about 13 percent, 87 cents a share. And let me say we're well into the fourth quarter now, and the fourth quarter's looking

good. We'll end up the year in good shape, will certainly meet the street's expectations and again it will be a great year for Enron and Enron's shareholders. And, of course, all of you in this room are also Enron shareholders.

If you look at the individual businesses again, the growth has occurred pretty much across the board. Transportation distribution, which is our regulated businesses, continue strong. They, obviously, don't grow as rapidly as some of the other businesses, but they do continue to grow, up about three percent in EBIT thus far this year.

The largest profits in on the company now, of course, is the wholesale energy operations and services business and, of course, through the first nine months a little over a billion dollars of earnings before interest and taxes. Let me say, that's just about the level of EBIT and that group for the full year last year, so they've made that same number in three quarters thus far this year, up about 37 percent. Its been running consistently 35, 36, 37 percent growth, 38 percent growth each and every quarter. And keep in mind, this is a business that, for the most part, Enron was not in 10 years ago. Today it is our largest profit-center and growing very rapidly, and, of course, the markets in Europe are opening

up, as Jeff will talk about, and that's providing still additional strong growth for us; and we're now beginning to look at the Japanese market, a brand new market where the government has announced they're going to begin opening electricity business there first with industrial market, open it up to competition.

Retail energy services, one of our newest businesses again the loss there is narrowing. We fully expect that to be a positive in the fourth quarter this year, and we expect that to contribute significantly to our net income next year. Again, strong growth, which Jeff will talk about. They've had a fabulous year and, certainly, have confirmed that this is a big business for Enron, a very fast-growing business for Enron, and a great growth business for the future.

Expiration and production, of course, we sold our ownership or most of our--we sold our ownership interest in Enron Oil and Gas Company. We did keep the international assets in both India and China, but we sold the remaining interests in the third quarter, so, of course, and, of course, it's been running somewhat behind last year's performance in any event. But that makes the unfavorable comparison even somewhat greater. But overall, the total

EBIT thus far this year, about \$1.5 billion, up about 24 percent; recurring net income up 32 percent, and after tax net income, of course, very, very strong.

So a very, very strong year for the company thus far. And, as I said, we have every expectation that the fourth quarter will solidify that performance and put us in good shape for another strong growth year next year.

This is kind of an interesting slide which Jeff and I both have used a number of times, but if you want to kind of look at what's happened to Enron this decade as compared the businesses that we were in at the start of the decade, but the pipeline average this year, which would be the more or less pure pipeline companies, natural gas pipeline companies, their shareholders have seen about a 74 percent increase in stock price this year--or this decade.

If you look at the E and P companies, this has been a tough decade for the exploration, production companies, a very tough decade. But that group overall, I mean on the average overall, taking all of them-- and then these are mainly the bigger companies, not the real small companies which probably even did worse than this, their shareholders saw about a 20 percent increase in stock value.

And, of course, the utility business which we're

somewhat involved with, particularly through our electricity business. Their shareholders have seen about a 55 percent increase in stock price this decade. But the Enron shareholders--and again, as we had started this decade, we were basically a pipeline and then an E and P company-- but Enron shareholders have seen about a 454 percent return this decade.

So, obviously, the changes in the company, the transformation of the company into largely a deregulated company, a company pursuing markets that are deregulating, has, in fact, given our shareholders very, very strong performance, and we think, in fact, we're positioned to give an even stronger performance as we move into the next decade.

And, of course, obviously, particularly as the price is kind of leveled off and sagged and gone back up and back and forth over the last couple of months or so, I get a lot of concern: Well, what's happened to our stock price? Why aren't we doing better? Why aren't we doing better? Well, and I agree with that. We should be doing better, and, indeed, we will do better. Of course, we may get into this Q and A, but right now we're going through kind of a period when a lot of pension fund managers are dumping

energy stocks, particularly natural gas stocks and so forth. But, indeed, for this year, if you just take this year alone, our shareholders have had a total return of about 38 percent that compares with about a 17 percent for the S&P 500. This takes all of the large companies in the U.S., and about a 12.5 percent return for our peer companies, companies that look something like we do.

So our shareholders, including us, have really had a good year. It's never quite good enough, and I understand that. And, certainly, I'm a little frustrated, and I think Jeff and Joe are a little frustrated, that we're not a little higher priced right now. But we've had a good year. And, of course, you take the last two years we've basically seen our stock price double. Two years ago, our stock price on a pre-split basis was about 38. Of course, it ended up the year at about 40, and, of course, today after the split it's back to about 38. So we just about doubled the price in two years. So we're doing okay. We could always do better, and we will do better, but we're doing okay.

One major transaction we announced here recently, of course, was the agreement to sell Portland General Electric. The buyer is, of course, Sierra Pacific Resources, a large utility out in Nevada, purchase price

about \$1.2 billion, slightly above what we paid for Portland General Electric, just--or agreed to pay for--just about three years ago. We closed on it about two and a half years ago. And we think that this will take--of course, it's been approved by the boards of both companies--it will now take nine to twelve months to work through all of the regulatory approvals, but we indeed have every expectation that it will be closed by sometime in the second half of next year.

And it will free up about \$2 billion in cash for us to redeploy into our other businesses. At the time we purchased it, it was very critical to our electricity strategy. It was very necessary for us to become a major player in the electricity markets. There were a lot of capabilities there we needed. Of course, that market is now matured significantly in the last three years. We're now able to provide all of the products and services that we provide without owning a utility, and we're now able to take that capital and redeploy it into faster-growing and high-return businesses.

With that, I'd like to turn it over to Jeff and let him come up and talk about the various business units.

MR. SKILLING: Thanks, Ken. I'd like to just as I start off reinforce what Ken said when he came up here to

begin with. We're actually streaming this video for the first time to a number of our remote locations, so I'd like to say hello to London, Portland, Calgary, and New York. And, as I understand it, we're sending this on ECI's network, so if it's not crystal clear, we know who to call when we're done here.

So let me go through very quickly with the business unit update. As Ken said, we had a great quarter in the third quarter, and things are progressing just wonderfully in the fourth quarter. Let me just go through each of the individual businesses. Four categories of performance or four categories of businesses are transportation and distribution business, which is our natural gas pipeline group and electric generation, transmission, and distribution activities. Wholesale energy, which, as Ken mentioned, really didn't exist in Enron more than 10 years ago, but it's our worldwide energy marketing and price risk management services, and a range of investments in development, construction, and operation of energy and other types of assets around the world.

Our new retail energy business which was started about three years ago, Enron Energy Services, which is providing comprehensive energy outsourcing for industrial

and commercial and users, and then our new business communications which is a high band with network, which enables e-commerce activities around the world. Let me go through each of these just very quickly.

First, our transportation and distribution business. Now, our gas pipeline group continues to find good investment opportunities. As we've mentioned in the past, the gas pipeline group is one of our highest return on equity businesses. We earn a very high rate of return on our investment in the gas pipeline group, so it provides a solid earnings, strong cash flow. But, in addition to that, Stan and his group continue to find opportunities to expand the network.

Probably the star in the expansion is Florida gas transmission. We have two new expansions underway in Florida. The combined expansions will increase our capacity into Florida by 40 percent between now and the end of the year 2002. So continued strong growth in the Florida markets, and Enron finds ways to continue to expand that network and expand the earnings and cash flow generations from the business.

Our wholesale energy operations and services, this

is an interesting chart. It shows a number of things that are going on in the business that I would like to address. The right side of the chart shows year-to-date volumes of natural gas, of power, and crude and liquids. And you see some really interesting things going on on the right-hand side. The left-hand side is third quarter, and you see some even more interesting things going on in the third quarter.

Let me make a couple of points about this: First, we continue to see over the nine months and the last quarter very, very strong growth in our gas sales. In fact, our gas sales were up a total of about 16 percent our third quarter of 1999 over 1998. That continues to be strong growth, which means we continue to gain significant market share in our natural gas wholesale businesses. That is great.

If you look at the third-quarter electricity sales, a very interesting market environment going on in electricity in North America. I'll talk about Europe in more detail in just a minute, but in North America we saw some of the most troubled wholesale power markets that we've seen. There was a tremendous amount of volatility and instability in the marketplace, and because of that a lot of people pulled out of the markets. We have a number of competitors that have abandoned the market; we have a number

of competitors that have now significantly ratcheted down their activities in the marketplace.

We pulled in our horns a little bit during the summer to produce volumes, which is what you see there in the 1999 third-quarter numbers because it was so unstable. But, in fact, because of the unstable conditions and high volatility, our earnings performance in the quarter from power marketing was actually higher than it was in the third quarter of 1998. So we continue to see strong earnings growth there. It's my expectation that we'll see growth again resume in the power marketing volumes, and my confidence in that, I think, shows up in this chart.

This chart shows quarter by quarter our power marketing volumes in North America. And what you can see is there is a clear continued upward trend in volumes. We didn't have as strong a third quarter as we had in the third quarter of 1998; that was a very unusual quarter for us, a great quarter for us in 1998, but we continue to see strong growth.

All of the powerful forces that are occurring in the North American markets for power are moving in Enron's direction. We're seeing continued disaggregation of the electric utilities. What that means is they're selling off

their generator business, separating their transmission business, separating their distribution business, which means that you have more players in the marketplace that need to buy and sell power from the wholesale markets, which should benefit Enron. That's one major trend that's occurring.

The second major trend that's occurring is that we're seeing the development of more merchant power facilities. In the old days, all the power plants were built by the electric utilities. Today, virtually all of the power plants are built by nonregulated companies. All of those facilities are going to be selling their power into the open wholesale markets. That increases our ability to make money and to transact business. So the trends, I think, are clearly positive for Enron. We have a very strong market position in North America, and we would expect to see very strong continued growth.

I'll also just mention that we continue to see and see even more linkages between all of our businesses at the wholesale level. Natural gas is really the center of what we do. Our strength in natural gas really drives our strength in many of the other products that we operate within; but we saw a lot of activity in gas this summer as

people were concerned about the winter being cold.

Now they've stopped being concerned about that right now, but in the third and second quarters a lot of activity as people were trying to lock up gas supplies, a lot of people concerned that all these new power plants that are going to come on are not going to have gas supplies. A lot of activity in natural gas at a time when power activity was declining. So we're seeing all sorts of inner relationships I think that strengthen Enron's position in the marketplace.

We've continued to make progress in building our network in North America, and I'll mention in Europe in just a minute. The network as we've defined it, the network that we use to create our wholesale markets for natural gas and electricity, rest on the base--on a base of physical assets: pipelines, power plants, different positions that we have in physical assets that support the development of the network.

We layer on top of that access to other people's assets. We try to get leverage from our assets by getting access to other people's assets, and then we make markets. And by combining all those things, we're able to package a lower cost service, commodity service for our customers, than our competitors can, and we continue to make progress

on each of these levels as the business unfolds.

For example, in North America at the physical asset level, we added last summer 1300 megawatts of peaking capacity to support our activities. We are looking for and are finding a numerous--a numerous number--a lot of opportunities to identify and develop additional plant sites because there is a need for this capacity to buffer the system from the types of shortages and ill-liquidity that we saw last summer.

We have additional peaking capacity of over 1500 megawatts currently under construction in the Midwest, and now we've got another 3500 megawatts of additional assets that are in the process of being developed. So 1300 megawatts came on last summer, we'll bring 1500 megawatts on this upcoming summer, and we got 3500 megawatts that will be coming on the following summer or the summer after that. So we continue to add onto that physical asset base for our network to make it better as time goes on.

We continue to develop relationships to get access to other people's assets as well. A big contract that was announced in the third quarter of this year was with a company called Peoples Energy outside of Chicago. Peoples is the natural gas distribution company for Chicago. We

announced three components of a relationship with that company.

The first one is a long-term gas supply agreement. We will be delivering 270,000 **[270 million]** cubic feet of gas supply to Peoples over the next five years, which is about 10 percent of all the gas that's consumed in the Chicago market area, but then, in addition to that, we will be optimizing for Peoples their physical asset position, their storage positions, transportation commitments, and so on and so forth which allow us, when they're not using those assets, to use those assets to help build our business with other customers in the Chicago area.

In addition to that we announced another contract that is under, currently under, negotiation to create a joint hub services concept with Peoples that will provide additional services to participants in the market in the Chicago area. And we have also signed an agreement where we will be supplying wholesale electricity to Peoples's subsidiary that will be selling electricity and natural gas to their customers. So we continue to announce a number of relationships with companies that strengthen our position in the marketplace beyond the physical asset base that we have.

I don't have a chart here on this in this

presentation, but the third level that we talked about, market making, as you know on November 29th, which was Monday, we kicked off Enron On Line, which is a direct Internet program, Internet system that allows our customers to transact directly with Enron over the Internet. We had 50 transactions on Monday. I think we had 56 on Tuesday.

Now, there's an awful lot of interest in this. It's, in my opinion, a much better way to transact business between ourselves and other counter-parties in the wholesale business. And we think that that will enhance our ability to make markets. So at each level--physical assets, relationships are getting access to other people's assets, and making markets--we've made tremendous progress over the last quarter. That's in North America.

Let me mention Europe. Very, very interesting developments going on in Europe as that market opens up for competition. This picture just shows the network that we're developing in Europe which is very similar to the network that we have in North America. I think the important point to take away from this chart is we have an awful lot going on in Europe. As you remember, our first exposure or activity in Europe was the U.K. We, subsequently, moved into the Nordic markets as those markets opened for

competition.

The continental market is now opening up. Continental Europe is opening up, and there is a tremendous opportunity in continental Europe to build Enron's market. Let me give you a sense for how quickly this is occurring.

This chart shows European volumes, natural gas and power on the left side and the number of transactions on the right side. The number of transactions I think is very interesting because we're seeing very strong continued growth in those first two markets that we entered that I mentioned. The United Kingdom, we almost doubled transactions volumes between the third quarter of 1999 and the third quarter of 1998.

In the Nordic region, we more than doubled volumes the third quarter of 1999 to 1998. And the continental markets which are now opening up, we were up by a factor of 15, which is 15 times the transactions third quarter of 1999 that we did in the third quarter of 1998. This is a very profound change in the marketplace. It's opening very quickly; it is an enormous market. The European market in aggregate is about as big as the North American market, and I think at this point Enron is the best position company in that market to gain market share and to have a significant

role in the evolution of the wholesale markets as they open up.

On the continent itself, we are actively making markets within the Dutch, German, Austrian, and Swiss physical markets. When they opened the markets in Germany earlier this year, people thought it would be a very slow progression. It has been amazingly fast as the German markets have opened. Prices have collapsed for wholesale power in Central Europe as they markets have opened for competition, and Enron is one of the major factors in creating these markets, bringing better prices and better services to our customers.

We are making forward markets at most European border points. We are the leading participant in the Amsterdam-Danish power exchanges. We're executing long-term and full requirement supply contracts in a number of the markets, and we're creating some ground-breaking transactions in even some of the less mature markets, the Polish market, Czech market, Austrian and Spanish markets.

In power itself, this gives you a sense of just the momentum that's building, transactions on the continent went from 414 in 1998; we're estimating this year that we'll do over 8,000, so an increase of almost 20 times. Volumes

from 25 million megawatt hours to 30 million megawatt hours, a number of counter-parties from 44 to 100. So we're expecting in the year 2000 to make continued significant progress. We're seeing some very positive changes in the marketplace even as it opens up.

For example, in Germany they're revising the transmission rules, which should be beneficial for our entering the markets in a bigger way. We're completing, or hope to complete, French, Belgian, Italian transmission regimes, and the French government just turned down their electricity restructuring bill last week. In some ways that may be positive because it was as very hard-fought battle. The European Commission is now suing or taking legal action against the French to enforce the opening of the markets in France, so this is really heating up. A lot of activity, and Enron is in there in all those locations prodding the process along.

There's the launching of at least one futures contract next year, and we would expect that as these markets begin to consolidate and begin to open up and transact with each other, we, as the only real Pan-European player, should see some significant opportunities for that market.

So North America continued progress, good volume growth expectations for the future. Europe is just absolutely exploding as those markets open up for competition. But in other places in the world--in India, great quarter and great year in India. Phase 1 of Dabur **[Dabhol]** is in operation generating power. Phase 2 is financed and is under construction. They are pouring concrete right now. We have secured the L and G supply to fuel that facility as we convert to L and G, and the remaining L and G, we'll have more capacity to gassify L and G than we will actually consume at the power facility, so we are building a pipeline along the west coast of India to move that additional gas to customers, industrial customers along the west coast. The name of that project is Met-Gas. But it is under development. We are expecting commercial operation in the year 2002, and we are actively out acquiring contracts for sale of gas. So we, I think, are creating in India the same type of network market that we've seen in North America and Europe.

One other area I'd just like to mention: as it was announced a few weeks ago, Kurt Hanneke (ph) has replaced Tom White as chairman and CEO of Enron Renewal

Energy, which is a parent of Enron Wind Corp. Tom is now devoting all of his time to energy services which is, obviously, growing very quickly. Kurt and Ken Carris (ph) are working with all their business unit leaders to ensure that Wind becomes a component of all of our businesses around the world.

But we just had some really good news out of Washington. They extended the tax credit for Wind Energy by an additional 30 months which should have, I think, a big impact on development of Wind facilities in North America in the United States over the next several years. So the business is looking very strong as we move forward in time.

Retail. Retail business, we mentioned, as Ken mentioned, is just rockin' and rollin'. They're having a very good year this year. They will go earnings-positive this quarter. That's what we had promised the analysts we're going to be there, and I think we're on a great trajectory for future growth in earnings and volume.

This chart shows the total contracts that have been executed by EES over the last couple of years. In 1997, we did \$1.2 billion of contracts. In 1998, we did \$3.8 billion of contracts. By the end of the third quarter of 1999, we have done \$5.9 billion of contracts. We have

told the marketplace and the analysts that we would hit \$8 billion this year. We will exceed the \$8 billion contracting volume this year, and we're looking toward next year. But we're going to be **[beat]** the contracting number that we told the marketplace for this year, we're going to be earnings-positive the fourth quarter, which is what we told the marketplace, and we're on a good trajectory moving forward. So really a great success story, and I think this is part of the reason we've had strong stock performance so far this year, and I think will help us in next year as well.

I just want to mention just a minute about the kind of network that's being created now in this marketplace, in the retail marketplace. This chart shows just four of the contracts that we have signed recently: Owens-Corning, which is a fiberglass manufacturer; a health care company; Suiza, which is a dairy; and Simon, which is a real estate investment trust that owns shopping centers around the country.

You can see there Owens had 20 facilities in 14 states. The health care company had 28 facilities in 17 states. Suiza 85 facilities in 22 states. And Simon 252 properties in 36 states. Those are plotted on the map, and

that map overlays sites where we have people, where we have Enron people in the field who can now go into those facilities, re-engineer the equipment that they have that use energy to reduce their energy consumption, help them cut their costs, cut consumption of electricity and natural gas, and create value for the customer and create value for Enron.

But you can see we are going to start building a very, very powerful network with scale in key cities and key locations around the country, which will put us in a very, very strong position to serve our existing customers and to serve new customers. So as we move from the sales side of the business, which is what we've been in, the mode we've been in for the last couple of years, into the execution side of the business, actually getting out, helping our customers do their business better, we have in place a very strong network to accomplish that, and that network will be exercised very hard over the next year. But, anyway, retail business coming along great. I feel really good about it.

Let me mention the communications business just for a second. This chart is kind of hard to see, and I apologize for that, but we're trying to help our employees and help our investors understand what our approach is and

what we're trying to do in the communications business, and I think this lays it out reasonably quickly. I know you can't see it, but let me see if I can describe it.

(Laughter)

If you look at that little blue thing that's up there in the left-hand side, it kind of lays out the various dimensions that you can compete on in the communications business. And you can't read it, but what it shows there is there are really four places in communications where we can compete: We can compete in local access--local access is basically getting from the wholesale locations out to the end-use customer. The analogy in the gas and electric business would be the distribution component, the last mile of the system. Local access is one place we could compete. That's where AT&T is buying wireless companies and cable companies. The local telephone companies like Southwest Bell own the wires, that sort of thing, but that's one place where we can compete in communications.

Another one is the long haul transport, which is the next component over there. That's the long lines, long distance, the band width component of the system. Network management, once you have the network in place, there's an incredible amount of activity involved in just managing the

network, directing the band width and ensuring that people are billed for it, maintaining it, thinking about ways you can optimize movements across the network. That's another area, the third one.

And the fourth one is an applications. A way of thinking about this is that once you have all that stuff, you're using it for something, and there are companies that go out and help people do video conferencing, or help people set up call centers, that sort of thing. And those are the different places where you can compete.

On the right side of this little box-- which you can't see either--it shows the different levels in each of those components where you can compete. One would be either in voice--voice is the slowest, the least amount of band width. But again, there's voice at local access, long haul, network management, and applications. There are low band width applications. Low band width applications might be Internet applications, you know, where you're sending a page, a web page to people.

And then there are high band width applications. High band width applications would be what our communications people call band width hog applications. And hog applications are typically things where you're sending a

lot of data, very dense data like video. So if you're sending a video signal, it chews up a lot of band width. There's a lot of information that has to be transferred to construct the video picture at the other end.

Enron is competing in a very narrow slice of this marketplace. We are not competing in voice. We are not competing in low band width. We are focusing on the very high band width applications. This is the future because this is where the marketplace is going. People want to add video, and you want to be able to call up a web site on Enron and have a button you push where you can actually see Ken Lay giving the interview of what's going on in the business and a tour of the building. And that's the sort of thing that will really enhance the Internet experience. That requires incredible amounts of band widths, so we focus strictly on the high band width area.

We have no interest in the last mile, this local access component. It's very highly capital intensive, requires digging up a lot of streets in Houston to make a lot of people very angry, and we don't want to get into that business.

We have a long haul transport component. We basically have a 12,000-mile fiber network that's in place

right now. We got it very, very cheap. We got in at just the right time where we were able to build a small amount of capacity, and we traded capacity and sold capacity so that our net cost is virtually nothing for that network, for that fiber network. So we have a fiber network, long haul network, and we have about as much long haul fiber as we need. We've got a lot of band width capacity, so we've got the capital intensive piece pretty much done with. We've got that done.

Where we're focusing--where we're focusing is on the network management and applications side. There's a lot of very sophisticated software on network management that can add a lot of value to the networks. That's what Enron's focusing on. We acquired a company called Modulus that has that capability, but they're really building the capability. Enron applications, we're helping customers really do something with this band width, help them set up web sites that can use video, streaming video from presentations like this to multiple sites around the world using the Internet.

Those are the types of things that require a lot of highly talented people to provide service for the customer, but that's where we're focusing the communications

business. So when people ask, well, why is Enron getting into the communications business, we are in a space there where there are not a lot of competitors. This is a place where we, as Enron, can create, I think, a lot of value for our shareholders, and it's a place where we don't think there's a whole lot of competition.

But it's a place where we think there is a lot of growth, and to give you a sense for this, if you take that piece of the market, that high band width market where we're providing high band width services to customers and network services, you can kind of estimate how much money is spent on that, and how that's going to grow in the future by just looking at how people use the Internet. Let me walk you through this thing.

In terms of Internet connections, you know, to try to figure out the overall market size, worldwide there are about 200 million Internet connections. Two hundred million screens or pairs of eyeballs that attach to the system. The average user today is on the screen for about 10 minutes; it's not very long. The average access speed is slow. They're not getting a lot of fast data, not a whole lot of band width is being pushed into those screens. And the price per megabyte, the price the people are paying for that

band width is pretty high because there are still capacity constraints in the system.

So if you just go through the whole thing in the conversion factor, the total market size today for the market where we compete in that little sliver of that box that I was showing you on the last page, the total market size about \$9 billion. Now, if you look out to the future, this is growing real fast. So if you take 2004 and just walk through the medium column here, Internet connections we expect that to go from 200 million to 700 million; usage will go from 10 minutes per day up to 60 minutes per day.

Now, we will get to the point where people will actually be able to use the Internet to watch television, or television-like programs. And as they do that, they're going to spend more time with their eyes glued to this screen instead of the other screen that's in the living room. Average access speed is going to go up a lot because we're going to be sending a lot more data, a lot more interesting stuff to those screens. Prices will probably collapse like they do in all of these commodity markets, but we just kind of run through a calculation: A medium market potential when you multiply all that out is \$172 billion in the year 2004. So moving from \$9 billion to \$172 billion,

that's a lot of growth. And Enron, I think, is well-positioned in that marketplace.

So that's what we're doing in the communications business. So as I look across all the different businesses of Enron, our transportation and distribution business, great cash flow, great earnings, continue to find growth opportunities in the marketplace.

Our whole business is North America, Europe, South America, and India showing very strong growth, extremely well-positioned. And we, typically, have the number one market position in every market that we compete in.

Our retail business, brand new business. We are way ahead of the competitors right now. We've got a strong position there, growing fast, and we're bringing in the customers. We're starting to execute on those contracts, but a great story, a great performance in that business

And then our communications business. It's new, it's different for Enron but a lot of characteristics of that business are similar, and it has enormous growth opportunities for the business.

So when I look at Enron, all the different businesses and how they're performing, and I look at the stock price--we're selling at about a 28 multiple right

now--that's low for the growth potential and the market position we have in all the markets we participate in. So I look for very strong growth in Enron stock price and strong performance from the company in the future.

So, in conclusion, as I mentioned, our businesses are unique. Enron's got a great set of businesses here. We've constructed something very, very special over the last decade, a knowledge-based network supported by very strong asset positions. Scale and scope, we dominate those markets that we compete in. We have innovative people which create innovative products and customize solutions, but at the same time we have been effective and continue to focus a lot on the managing of risk in the system to ensure that we're not taking on risks that we can't handle.

We continue to gain substantial market share in rapidly-growing, deregulated markets worldwide, and we have a commitment to get all that stuff and make it work together to provide substantially increased value to our shareholders. So, overall, the company's in great shape, great performance third quarter. Fourth quarter is looking very strong for us as well, so with that, let me turn it over to Joe to talk about people and culture.

MR. SUTTON: Thanks, Jeff. I feel like Roy Rogers

today. They gave me two holsters here, so I'm going to be--two guns here. I feel like I'm weighted on both sides.

Good morning, everybody.

(No response.)

Good morning!

AUDIENCE: Good morning.

MR. SUTTON: Good. Let's get a little bit of life in this group, huh? This is a huge audience. I was surprised. In the front row, you don't see all these people. Great, as you get back to work.

(Laughter.)

Let me just talk for a minute this morning about probably the most important aspect of our company, and that's people. I think that you've seen from Ken and Jeff that the company with regards to its financial performance and its operating performance is just doing fantastically well, doing exceptionally in every area. If you travel around to the different parts of the Enron empire, you see that everybody is having success, and that's great.

But that success is due in large part--in fact, almost entirely-- to you folks, the folks in this room, the folks out there on the screens that are watching this presentation in all parts of the world.

As you saw from the last map that Jeff put up, we have--I call them Enron dots--but Enron dots all over the globe right now. And I think as our business expands and as we continue to redefine our business, you're going to see more and more of those dots around the globe. And I think that's what makes us a dynamic and unique company. And that's all due to your efforts in large part.

There used to be a joke told about major oil companies, and I think this probably applies to many companies who are based on a hierarchy, and that's that, you know, you come to work for the company, you work for the company for 40 years. At the end of 40 years, if you're lucky, the chairman has died and everybody moved up a notch.

(Laughter.)

No, Ken. Geez!

MR. LAY: That's if you're lucky.

MR. SUTTON: That was if you're lucky, that's right. And, really, the only new employee would be the stenographer who the new chairman hired. And that's how the whole thing worked.

Well, of course, Enron's not that type of company nor are most companies that are being successful today. What you have is you have meritocracies, you have people

reinventing their jobs every day, people who have taken ownership of the company. What I want to drive home, the point I want to drive home to you, is the name "ownership." This is your company. You've heard your company's doing very well. Your company's doing well because of you. And how do we keep it doing well? How do we keep it moving forward?

I think we do it with One Enron. We tried in the last time we talked to you, we talked about taking down silos. We talked about trying to make our company more interactive, more one company. And we worked very hard on that in the last several months. And I know many of you see still some segmentism in the company, but for the most part we've made great progress. I think that with this chart, it shows the many different parts of one Enron that we have to keep on emphasizing, if we're going to expand globally.

We're coming in on a couple here. The first one we're coming in on is network businesses. Your business, whether you know it or not, or whether you believe it or not, is a network business. I think the one thing that I've seen most in the short time I've been in corporate headquarters is the many different abilities we have in Enron, just a huge amount of abilities we have out here.

And I think, as we redefine out **[our]** business, we're going to find the opportunity to bring all of those abilities to the forefront, bring them into our package, our value package that we're offering.

An example is in retail. I think probably the part of business I've been most impressed with inside Enron, the corporate part of Enron, is the retail part of the business because, as Jeff showed, the business is doing great, but the most important thing is we're out now in contact with the customer, and we're no longer talking to a wholesale provider, we're no longer talking to a utility, we're talking to a customer. And once you assess that customer, you do a good deal with that customer: He outsources his requirements to you, then you're under the tent. There's all kinds of ways you can bring value to that who's looking for this value.

We can bring value in water, we can bring value in construction, we can bring value in finance, we can bring value through engineering services. We can bring value through our communications services over time. All of this is going to be packaged together as a network of products that we're going to bring to our customers. So I think if you look at One Enron, we're moving towards a series of

really and truly network businesses.

There are going to be more than just your little group of people that you work with. And these groups will be groups that are working on different projects throughout the company in growing out **[our]** business.

The second point I want to emphasize is the point on meritocracy. A company can't survive today if it's hierarchical. It's got to be a total meritocracy. You do good, you get promoted. You have a great idea, you get recognized. You get, you know, you work harder than the next guy, and you get a chance, you know, to move up in the corporate structure. And that's got to be based entirely on merit. That can't be based on what's your--where you come from, or where you went to school, what your race is, what your religious preference is. The whole thing's got to be based on how well you are as an employee.

And what we're trying to promote here is we're trying to promote a system of employees where meritocracy is what counts. And we want people with different opinions, different ideas, different attitudes. That's what makes our company strong. So if you look at this chart and you see One Enron, I think the whole thing can be grabbed just if you'd look at network businesses and meritocracy. That's

what we're moving toward.

This chart is one of my favorite ones because I think it's neat looking.

(Laughter.)

But if you look at this chart, we have an Enron talent pool. We bring all of you great talent people in, and we've tried to knock down that system of silos we had before. Now, sometimes you have to have a silo because you're forming a new business, so everybody's got to get together to make that business work. Well, we've gotten to the point now where we've got to knock those down. We have a series of competencies around the company, we can bring together a network fashion that will be maximum value to Enron. And, hopefully, at the end of the day what we end up with is being able to have top talent recognized. This process is key to what we're trying to do.

Just let me talk a minute about the business model, because I think this is something that applies to all of you. If you look at this slide, it talks about a model for business. Now, our model, like most models starting out, was probably assets hardware, and we were a producer. If we look back to Enron's days, the E and P days, the gas pipeline days, the asset development days-- and that's still

important to our business to a certain degree--but we have to transcend that and move into a maybe a little more higher value organization.

And those values come primarily through service skills, that Jeff talked about some of our software applications, and, of course, we've been a very good dealer in arbitrage (ph) for quite some time. But the idea is you take your capital investment, your asset investment, and then you build on that investment in less capital-intensive ways by adding value, different value streams. And that, of course, increases your return on your invested capital which is what we're trying to put forth here.

Of the organization, I think that you can look at this, and you can sum it up, probably, that the best way to do it is say: Probably today, one person with a laptop in a hotel room can do as much as 10 floors of people could have done in an old organization. That's not to say you want less people; what you want is you want more of those folks with laptops out there generating business. So if you can look at a network of people, and you have someone working on a system or a net, and they can interact with other people in a much quicker, much faster way, then you could just multiply your business exponentially. That's what we're

talking about here.

The last thing, of course, is yourself. I think we want--you know, I really--you know, when you say "employees," but an "employee" may connote the wrong thing. You know, what you are is owners. You're all owners. You're a system of--you're a group of entrepreneurs, have great skills that every day you want to bring those skills to the place where you work and apply them in creative, innovative ways. And you shouldn't be constrained at all in how you do that. That's what we're moving toward.

This little chart here talks about the work force a little bit. You know, we have more and more a global work force. Just look at Enron. I mean we've got in this room alone, I mean how many people in this room speak a language other than English, raise your hand. I'll raise mine, okay?

How many people in this room were born someplace other than Texas, raise your hand? Yeah.

How many people were born in someplace other than the United States, raise your hand?

That's great. How many of you--uuh-- we could go on and on like this. But the point is we have a totally--

(Laughter.)

No, I wasn't going to ask that question, okay?

No, but I think that's great. You know, we're moving towards a diverse work force. We have a work force that's physically diverse, geographically diverse, background diverse. Now, we've got to bring all that together, and that's what makes Enron good, see, because you bring all those different backgrounds and opinions and views and educations and blend those lives together, if you can put those together, then we've got to be the most innovative company in the world. We've got to be the most creative company in the world. We've got to be the most progressive company in the world. That's what we're trying to get here.

Okay, next question. This is a more difficult question. How many of you have completed your ETC survey? Stand up.

The rest of you have no right to say anything bad about this company forever. Okay?

(Laughter.)

It takes 10 minutes, 10 minutes on your computer to get the ETC survey out and complete it, okay? And we want you to do that. We want you to do that. Right now we have about 3500 people who have responded, and that's good, and they're from all over the world. That's why--that's the way it is now. This is a tool we can use to correct

problems with the company to identify things we need to work on. I want you to know it's not traced back to you.

There's no way that Ken and Jeff and Joe can trace back to you what you said on your form, okay? We tried. It doesn't work.

(Laughter.)

But there's no way we can get back to you on the form, so it goes to a central clearing house, and they give us the results. We want you to do this. So all those of you who were sitting down, get a little energy. When you go back today, punch up the computer your ETC survey so we know what you think about the work conditions and what's going on at Enron. Okay? Please.

We have extended the deadline till Friday so you have till Friday to get your input in. It's your company. Take ownership.

We have a unit **[yearly]** management conference at San Antonio for our vice presidents and above in the company, and we had this--it was about 500 of us there a couple of weeks ago--there is hope for all of you. And one of the best things that came out of that meeting was the recognition of the chairman's award. We started this last year, and we had a young man named Repa (ph) in Indonesia

who did something very heroic and won the award.

This year we wanted to push it more toward the employees in every-day functions and activities. And I'm proud to report this was a 100 percent success. We had over 250 recommendations for people in the company just on every-day performance, every-day exemplification of our vision and values. And it was tough to pick winners because everybody was pretty close to the line.

So next year as this winner's award comes out, just make note as you go through yours. People have done things that you work with that really support Enron's values. You know: respect, integrity, communication, and excellence. And it's nice to let one of your coworkers up or somebody up and say, "I recommend this person because they've done this, this, this, and this." And, believe me, it's a fantastic way to recognize people that are doing good in the company.

This year's--this year's winner was Bobbie Brown. And I just want to read you a couple of things about Bobbie so you know what got her the award. First of all, she's an administrative assistant at Portland General in the Human Resource Department. And, of course, she won the award. Employees for all over that company admired Bobbie. Why?

Because they've grown in ways that they couldn't imagine from working with her, and they exemplified those and put those on paper in all of the recommendations we had for her. In addition to her recommendations, she had a number of people that signed the form--I mean it was over 200 people signed the form recommending her when it came in.

The key thing is, is that she's respectful of others even if they don't give her respect, which is kind of tough sometimes. Most of the time, when someone doesn't respect you, you want to nail them.

(Laughter.)

But she--she turned it the other way. On one occasion her friends told us that there was an auditor who was there, and he was condescending towards Bobbie because he thought women, and particularly women of color, were inferior and that she was just a menial clerk. Bobbie's coworkers who heard the auditor expressing these attitudes were furious, but Bobbie continued to respond to his requests with the same professional manner she always did, and she continued to work on and in a dedicated way work through this. That's probably one of the highest points of respect we can offer, when you're able to take someone else's disrespect and still respect them.

She's a beat artist (ph), she's a collector of children's books, a mother of three, a grandmother of four, a volunteer coordinator, she teaches the African American culture, a mentor for children, a leader for colleagues, and a friend for all. That's what was in her report.

I can tell you, Bobbie's words at the conference were uplifting. So we picked a great person this year. I'd like all of you to be nominated next year for this thing if you could be.

We also picked a roundtable which were sort of the 12 runner-ups on the award, and they were equally good. This is a list of those, those people are, and I will tell you that our values are alive and well in Enron. They're out there, and they're getting reinforced every single day, and these awardees certainly show that.

With that, I'll close by saying it's your company, and this company's based on people, creative, innovative, the best people going, and that's all of you. So let's keep it moving. With that, I think we're ready to answer questions, right? Ken and Jeff?

MR. LAY: Joe, I do think there's a couple more things to wrap up the chairman's roundtable discussion. I think we have here in the audience today, I think four of

the finalists, four of the roundtable of 12: Karen Campos, Doug McNeally, Kevin Moore, and Craig Sutter. Would you all please stand up and get a big round of applause.

(Applause.)

And I agree with Joe. I mean all of the finalists were outstanding. Obviously, Bobbie was the final choice of the employee committee. As Joe said, this was employee-driven all the way from the nominations to the selection committee. And, basically, Jeff and Joe and I just acknowledged them at a dinner, a very special dinner at the management conference over in San Antonio.

I think, finally, before we go to questions, as Joe said, we had almost 250 nominations. And let me say, just going through some of those nominations, many of those, of course, were equally disturbing **[deserving]** as even the final 13. For those of you in the audience that were nominated--and I think most of you know if you were nominated or not--would you please stand up? Let's give them a round of applause.

(Applause.)

Now, the main thing I learned from Joe is that it's unlucky if I don't die. I'm going to watch him real carefully.

(Laughter.)

But let's do now go to the--I think with that we're now signing off with the remote locations where this has been streamed through our communications people, so we'll sign off in London and New York, and Oregon and Calgary. And now we'll get down to the Q and A here in the audience. We'll start off again with the ones that were submitted in advance, but we certainly want any and all of your questions. People are going to walk down the aisles here in a little bit, I think.

The first question, which we've really addressed, but I'll just hit it very quickly again.

"Why has our stock price decreased over the past several weeks, and what is management doing to get it back up?"

As I said, I think we sometimes lose our perspective here. We still had a good year as far as total return to our shareholders, had a good two years. We're never satisfied, and I don't want us to ever be satisfied with a stock price; it should always be higher. And, certainly, Jeff and Joe and I believe it should be higher. Indeed, we still think even over the next several months that there's a good chance that the stock price could be up

as much as 50 percent, and I think there's no reason to think that over the next two years that we can't double it again, at least double it again--and could do even better than that, of course, particularly depending how this whole message on our communications business plays out over the next several months.

As far as what management's doing, we're working all the time to refine our strategies, to implement our strategies, to obviously identify those people, get the best people in the right jobs, get the right organization, try to use all of the talents that we have throughout the company just to continue to kind of redefine all of these markets where we're operating. And I think we've done a pretty good job collectively, all of us have done a pretty good job collectively over the last decade.

The next question I think relates to something Jeff--I'll let you take it.

MR. SKILLING: Okay. This question is: "Did Jeff Skilling really say, quote, 'All assets are for sale,' unquote. If so, why are all assets for sale?"

(Laughter)

Well, I think the exact quote I would imagine is

being referenced there is I have said on many occasions--and I think we all need to be thinking about this--that our entire company goes on sale every morning at 8:30 Central time when they ring the bell in New York. We are for sale every single day, and that's the report card. And people can buy us on that market; people can sell us on that market. And so what we have to do is we have to respond to that by running the business in the best possible fashion that we can.

And let me tell you what some of the issues are that we're grappling with now. Ken talked about the opportunity to increase our stock price by 50 percent. I really believe that's a possibility, and I'm going on record today as saying that I believe the stock price will be at \$62 to \$63 at the end of next year. And I think it can get there because I think we've got a lot of good things in the works.

But let me tell you how to get there, and if you want to write these down, feel free to do so because these are ball park that I think we're going to see over the next year. Start off with our core stock price of \$40--let's say \$40, we're actually a little bit below that, but let's say \$40. If we're able to hit the numbers--and we've just gone

through the budgeting exercise and we have targets for all of our business units right now--if we hit our numbers over the next year, you can add \$6 to that, about 15 percent because we're projecting a 15 percent earnings increase over the year, so probably the middle of the year as long as we're on track, the market will start reacting to that and give us credit for that, and that will be about \$6.

If the retail business continues to build on the track record that they have, I think fourth quarter doing what we said we're going to do is going to have a very positive effect. I think we'll get another \$3 out of the retail business just because of things that we see that the market has not seen confirmed yet, and I'd imagine that over the next couple of quarters that will be confirmed in the market. That's probably \$3, maybe a little bit more.

Enron On Line. There's a lot of interest in new Internet technologies. If Enron On Line works the way we think it can work, it will be a whole lot more than \$2, but I think \$2 is a reasonable number to assume if we get good performance from that, we get some liquidity in the marketplace, and people begin to think it can enhance our growth rate longer term.

So that in sort of what you could call our

traditional businesses. That's \$11. So if all those things happen, by year end we'll be at \$51 a share. Now, I'll talk about two components, two additional components to that that are kind of wild cards. One is the communications business and the other is something that I call return on capital invested.

And let me start with the return on capital invested. Enron sells at a multiple of about 30, a price to earnings multiple of about 30, and that means that we earn, or we're projecting that we'll earn \$1.35 next year. If you multiply that by 28, you can get what the stock price will be, and that's kind of that \$6 added onto the core stock price. A 28 multiple is a high multiple for an energy company. It's almost double what the multiple is for other energy companies like us, and the reason it's double is that people think we're growing faster, and they think we're going to earn more money in the businesses that we're growing.

If you take our 15 percent growth rate that we've talked in the marketplace about, they like that. But to get to a 30 multiple, you need more than a 15 percent growth rate. If you tell them that you can make 15 percent and if they believe you, you also need to be earning about 20

percent return on equity, about 21 percent, actually, because your long-term growth rate without having to issue new equity is equivalent to your return equity plus your book dividend rate. So 21 percent when it's five percent book dividend rate. We can maintain a 15 percent growth rate without issuing new shares that dilute our existing shareholders.

So two numbers to keep in mind: 15 percent growth rate, 21 percent return on equity to get to a 30 multiple. Now, we'd like a higher multiple than 30, but just get to a 30 multiple, those are the two numbers to keep in mind.

We are hitting the 15 percent growth rate, but our return on equity is not 21 percent; our return on equity is 10.5 percent. Big gap there, and the reason that they're still giving us credit is they believe in the long run we will reduce our capital intensity. We've had a big construction program, a big investment program. They expect that we'll be able to get our invested capital down and get our return up, to get our return on equity up, over the next couple of years. And they're giving us credit for that.

We have got to show continued progress along those lines, so what we have to do is we have to find ways to improve our return on invested capital. Everything else

stays the same, our dividend--or our multiple--will drop by one-third unless we convince them that we can earn a fair rate of return on our invested capital. So when people hear me talking about assets and rates of return on assets, that's what we're talking about. We have got to get our return on incremental capital up.

Now, I think we can do it. I have every confidence that we can do it, but we have to put that in our objectives over the next year, and that's baked into the plan for next year. And I'm certain that we can get there. But what it requires is a real top **[tough]** review of all of the capital that we've invested across the company, and if there are places that we're not earning a good return, figure out how to fix it. If there are people that want to pay us a lot for an asset that's worth more to them than it's worth to us, we've got to find ways that we can capture that because we've got to get that return on equity number up over the next couple of years.

So to the extent that--did I say all assets are for sale? Probably, because they are. We need to look at them. We need to see what's strategic, what is quarter business, what's mission critical. If it's mission critical, it's here and we need it, and that's what's going

to create our earning stream in the future. If it's not mission critical, we're not earning a good rate of return on the stuff, we've got to do something about it. Otherwise, the stock price has got some sensitivity.

So I'll get you up to \$51 a share. As long as they're convinced we're returning, or increasing our return on invested capital, it will be \$51. If it isn't, if we don't convince them of that, we're at \$36 at year end next year. So \$51 plus we convince them we're going to hit a return on capital numbers, we're going to be at \$51.

And then the next big uncertainty is communications. I think that if we're good at communicating what we have, we've got another \$10 to \$15 in stock price from the communications business, but which could get us up to the \$65 range. I think we'll be able to do that, and so I think we'll be somewhere in the \$62 to \$63 range.

And I'm sorry that was such a long, drawn-out discussion, but I want you to understand what some of the pressures are that we, as a company, face in the capital markets and the things we need to keep in mind as we move the company forward over the next couple of years.

MR. LAY: Why don't you take [inaudible] there.

MR. SUTTON: One question that came in said: "Why

did we sell PG&E?" You know we did sell Portland General. It's not been sold entirely, it's ours until the regulators approve it. That'll probably take nine to 12 months, so it's ours probably through the next year, through year 2000.

We sold PG&E, primarily, because when we bought the utility, we needed the utility experience. We were looking at deregulated markets, and we needed to get in and learn that part of the business. We did that, we got good value from PG&E, and it's still a good utility, a very good utility and it will continue to be so, but it's a regulated return. It's regulated, so it doesn't fit with our strategy going forward, so we felt the best thing to do was take the value we'd gotten out of it. We sold it for a little bit more than we paid for it, and now we can move forward in attacking the markets in a little different way. It just didn't deregulate as fast as we thought it would.

MR. LAY: And let me also remind everybody, we have mikes here in both aisles, so if you'd like to get up and just ask your question in person, that's fine, too.

Next question here: "What is the deal with EDS? As a group, they are the worst tech support we have ever encountered in all our years of working. We know of only one person in that group who's consistently eager to help

and who is cordial and consistently follows up. We realize EDS is almost out the door--or so we heard--and that another contractor is on the way in. Why doesn't Enron hire permanent, full-time tech support for all the companies? EES employees' permanent full-time staff and its tech support group and the rate, the same is supposed to be true with Enron North America, and we know that Enron North America has had the same problems when they were using EDS. Contractors always start out great and then it's down hill. Please fix the problem."

(Laughter.)

I would say that we got somebody here with something on their mind.

(Laughter.)

Odds are they don't work for EDS.

(Laughter.)

Probably work for EES, but good points. And there has been a certain level of dissatisfaction with EDS. That arrangement was originally struck again almost a decade ago where it was done for good financial reasons. I think over the full course of this period the savings that we've realized certainly justified what we did.

It is very consistent with our philosophy that

Enron is not necessarily going to be world class at everything. And no other company is either. And that's the reason we think that we can provide energy outsourcing solutions to companies virtually across the board, no matter if they're well managed or not well managed, and save them a lot of money over a period of time. And let me say I think thus far we've demonstrated that to be true. Even the best-managed companies, we can move in and take their energy assets that's not a core business for them, that's not one of expertises, and we can save a lot of money.

Enron will continue to look at its businesses that way. We do outsource a lot of things, including our internal audit function, which is a little unusual for companies. But I will not say that all of these have been totally successful, and, certainly, we continue to look at all the critical functions that we outsource and make sure if the current provider is not performing, then we will make changes.

So I think the points here are really well taken. I kind of kidded about it a little bit, but, certainly, in information technology and given the direction this company is taking, we can't have--we can't have second best in anything in that area. And so it is an area that's getting

a lot of attention now, another reason we set together the global technology group. Mike and his group are looking at this across the whole company, across, around the whole world just to make sure that we do continue to upgrade and improve the quality of our IT activities everywhere.

MR. SKILLING: "Will Enron ever merge with a company, i.e., Mobil?"

Well, unfortunately, Mobil has just merged with Exxon, so it won't be Mobil which really disappointed me, because if we could have merged with Mobile, then we could have been MORON.

(Laughter.)

Darn it. We tried. We tried really hard. It just didn't work. No. Will Enron ever merge with a company? You know, I really don't think so, and we've looked at a lot of different companies in the business that could add something to Enron. We've looked at electric utilities to see if there would be a match. Well, a large electric utility is a regulated company, it doesn't bring us much, might hurt a multiple. We've looked at other energy companies and, quite frankly, when you look at the energy stream now, there's enough of a liquid market in production; you don't need to own production any more. So we've looked

at a lot of different alternatives, and we really haven't seen anything that adds much to the business. I think we're kind of on our own, and we're going to have to build value for our shareholders and build the company the old-fashioned way, just providing better services, better costs for our customers.

So I think we're on our own, which is good.

MR. SUTTON: I've got one here: "Is it reasonable to think a company like Enron, which is so focused on the next one or two or even eight quarters' earnings, can develop a profitable network of industries in poor countries with legal underpinnings like India, China, and Brazil?"

First of all, I think it's important to understand that we have--you know, I know this fairly well, and we've put a great deal of effort and capital into Brazil at this point. And in Brazil we probably have the best physical network of facilities in Brazil, of assets in Brazil, of any company in that region.

Now, with the challenge in Brazil is to take that capital investment, and they've got to grow that business in a way that adds value and is not capital intensive. You can only put so much money into something before it has to start yielding returns. And the key in this sector is to take

this great network we have of assets in Brazil and add value from that network using our presence in the market, our abilities from a name perspective, what we can do in terms of leveraging those into other opportunities that are less capital intensive to draw that market.

We've done similarly--a similar thing in India. As Jeff showed you up here, we built a power plant. Now we're expanding that power plant. It yields a very good return, but the key there was to get into the country so we could expand our business there in a noncapital-intensive way. We're doing that now in India through the gas business Jeff talked about, through communications, those type things.

China is a little different story. China is a tough place. It's hard to get into China, and it's hard to get a business established there in a base of assets or a base of business that allows you to grow it. We're re-looking China right now. We'll stay actively involved in China, but maybe in a different and a little slower fashion than we have in Brazil and India.

But the answer to the question is: Yes, we think we can. It's important to our business to work in some of these emerging markets, particularly the good ones. We've

got great positions right now in South America and India, and there will be less capital-intensive businesses going forward in those regions. China I think we're still looking at.

MR. LAY: Not surprising, we have a number of questions about Azurix. I'm going to tick them all off there, and then respond in a general way to all of them and let Jeff and Joe add anything they'd like to.

"How much longer will the Azurix be an Enron company. Where do you see Azurix five years from now, stock price, et cetera? Do you think that the current situation of Azurix is bringing Enron stock price down?" On the latter, it probably has been a bit of a negative. I'm going to answer all of these in a minute, but there has been a little bit of a fallout from that on Enron stock.

"What is the specific time in the Azurix spin-off? Financial health and potential success of the Azurix. Future planned relationship between the Azurix and Enron? What are we going to do about the Azurix? Can we get the stock price to recover? Why--"--well, this had to do with the Azurix employees.

"What's being done to enhance performance, profitability, and share price of Azurix?" And then,

finally, "How could Enron dupe its own employees by not telling us that the net tangible book value per share of Azurix as of 12-31-98 was only \$7.37 while Rebecca was selling it to us at \$19 per share?"

Don't hold back.

(Laughter.)

I mean if you've got--

(Laughter.)

If you got something on your mind, put it out there. To kind of answer all of those in a more generic way--and let me say I think our total cost in Azurix is more like \$17 or so a share, and, of course, we sold about a third of our ownership in the Azurix at \$19. I mean we were part of that public offering. We, of course, still own about 70 percent, and let me say we didn't sell a third, or 30 percent, because we expected the stock price to go down, as it has. But, primarily again, just monetizing some of that asset to redeploy that capital into other parts of our company.

What's happened there is, in fact, too bad. It maybe in part couldn't have been prevented; maybe part of it could have been prevented. But indeed, the deal flow that was anticipated at the time of the public offering was just

not realized. A lot of the transactions, the privatizations that they were planning on, at least there was some probability of success. The growth of the company, a number of them got delayed, they got diverted, and they got restructured in a way that they weren't attractive for [inaudible] to bid on them, et cetera.

And, of course, with a new start-up like that, time is very precious. You don't have all that much time to prove that your game plan's going to work or it's not.

Let me say, going forward, indeed I think probably like the stock market usually does, it's probably overreacted. I mean we think whatever the tangible book value, we think just an absolute breakup value for the company is probably \$11-\$12 a share, so the drop down to \$7 or \$8 is a little hard to justify, except some people decide to get out and take their losses before the year end, and the rest of it.

But, more importantly, the management team there is working hard, and, certainly, Joe and Jeff and I have spent some time with them, and we'll spend a lot more time with them over the next month or so, but working hard to come up with a strategy that will, in fact, create value in the stock market much higher than \$11 or \$12 a share fairly

quickly. And we say quickly, we're talking about the next 12 months more or less. So that is the target. I mean come up with the game plan that, in fact, will get the stock price back up at a reasonable level, hopefully, the mid teens over the next 12, 18 months, 15 months. And then, of course, from there it'll be much stronger financially in order to do a lot of the other things that they want to do.

And a lot of that's going to be just blocking and tackling, just doing a lot of things they're doing, doing it better, doing it cheaper, doing it more efficiently, but really getting focused on the two or three things that have the greatest potential. And that could include some of the services business that could grow very rapidly and at good returns.

But, certainly, Enron doesn't like to be associated with any company that's not successful. We're sorry that the Azurix has not been totally successful, but, certainly, we still believe that the strategy is in place, or is being put in place that, in fact, can make for a very successful company.

Anything you want to add to that, Jeff?

MR. SKILLING [SUTTON]: I didn't send all those cards in on the Azurix. I mean I'm a shareholder, too. All

of us are, and we probably got it at the same price you did, and I think everybody wants to see the company improve, and I think that Rebecca and her team have got it focused now for all that to happen. So we're all hopeful that will be a positive in the next several months.

[MR. SKILLING] I've got one here, and, actually, I'd like Cindy--would you mind to come up here and answer this. This one, it says: "Has a replacement plan been identified for the ESOP?" And we've gotten a couple of those and if you wouldn't mind addressing that.

While you're doing that, while you're coming up here, there was another one that I can probably answer pretty quickly: "Why were analysts and associates not invited to the Enron North America Christmas party while analysts and associates rotating in other operating companies were invited to those parties?"

Is there anyone here from North America? I didn't see Cliff or Kevin earlier. I mean if someone--if someone's working in North America I think they ought to be invited to the Christmas party.

(Laughter.)

And so I will call up Cliff and Kevin when I get

back, and I will give them my opinion and see if that has any influence on them.

MR. LAY: Well, of course, that's kind of assuming that the associates and analysts behaved themselves at the last Christmas party.

(Laughter.)

MS. OLSON: On the ESOP question, the ESOP runs to the rest of 2000, and we are currently working on something that will replace it next year. So that's the answer to that question.

Ken handed me, also, a question on the Azurix employees, and I'll be honest with you guys, that question is: "Why aren't Azurix employees eligible for the employee referral program?" And I don't know why they can't be. I don't know that that was ever determined, so I would say, yes, they are. Absolutely.

MR. LAY: Call Cindy.

MS. OLSON: Call me. "Should we invest all of our 401(k) in Enron stock?" Absolutely.

(Laughter.)

Don't you guys agree?

(Laughter and simultaneous discussion.)

MR. SKILLING: You're doing good.

MS. OLSON: Okay. "Why isn't the 401(k) deductions split between both pay periods instead of being deducted from one check?" Well, we can certainly look at that. I don't know why we, like we can't do that. We'll take that into consideration. Anything else?

MR. SUTTON: Oh, a couple here. Kenny wants you.

(Laughter.)

MR. SKILLING: Joe, I think you're up. They've got one.

MR. SUTTON: Plenty of them. Here's one here that says: "How is the space issue being address from now until the new building's complete? Work spaces are becoming less conducive to productivity."

All I can tell you is, is I think we're, you know, we're doing our best. I know Bill [inaudible] is out here, and you can offer comments if I screw this up. But I think the answer is we're moving the new building along as fast as we can. We're doing the best we can to relocate and reshuffle inside the Enron building and 3-Alan (ph) Center in the meantime to give you a place to work.

Now, that's--you know, the bad news is it's going to be a little crowded until we get the new building done. The good news is the company's growing; that's why it's

crowded. So I think that--Bill, why don't you come up here for a minute, Bill, and just tell them about the new building. Okay? I mean, we should probably take a couple of minutes to get a new building up there anyway. Why don't you just tell them what's going on with this building?

MR. [BILL]: Well, thanks, Joe. I really appreciate this.

(Laughter.)

MR. SUTTON: This is the guy that's in charge of the new building, okay? If anything goes wrong, it's his responsibility.

MR. [BILL]: Give me a call.

(Laughter and applause.)

Well, the good news is we really are moving fast in the new building. The weather has been great, and we've got a big hole out there.

(Laughter.)

We're actually two and a half months ahead of schedule. We're looking at occupying around May, June of 2001, and we'll finish the tower occupancy by the year end 2001. So, on budget, ahead of schedule, and in the interim we are looking at leasing some incremental floors over at 3

Alan (ph). We just leased two floors at 600 Jefferson, and so we're watching it. If you have space issues that are intolerable, please call, and we meet every Monday morning, and we work on your needs.

MR. SKILLING [**LAY**]: Thank you, Bill. Good.

MR. LAY: This just shows how strong Jeff's leadership is. The associates and analysts for the North American group, they are invited to the corporate Christmas party Saturday night. So any doubt about that, you're invited to the Christmas party Saturday night.

Let's see. Let me hit three or four new ones here real quick, and then we're going to try to wrap this up in five, six, seven minutes.

"Why not consider an office of Chairman of the Executive Committee for all wholesale operations? Each region reports that office to the chairman of the executive committee, and we can, hopefully, retain the shared knowledge aspect of this oversight function. This they can reconsider, combining the support functions, legal tax, accounting, structuring, human resources, public relations, et cetera. Within each discipline, employees can have regional focus."

That's what we need, shared knowledge, expertise

within these functions. I think Joe alluded to some of this, but there is a concern, and let me say we share this concern. It is a concern that, as we've broken the company up into smaller profit centers in some cases, regional profit centers, each profit center is trying to recreate kind of their own back office, their own HR function, their own PR function, and we've got to be very, very careful about that.

I mean, as Joe talked about in his presentation, the concept here is really twofold: One is to kind of break down the silos getting all the businesses operating together better, kind of cross-fertilizing each other.

But, secondly, by creating smaller profit centers, quite often what we found is you get faster growth. When people really get focused on a region and really are responsible for that region, we see new ideas coming out, more creativity, and faster growth. We can't retard that by burdening both those groups and the whole company with a lot more staff functions than we really need.

So we will keep looking at that, and to the extent that we're seeing a lot of duplication, we will try our best to try to eliminate it because we don't want to create a lot more bureaucracy and overhead by what we've done, basically,

to try to streamline the way the company's operating.

[Video goes to black.]

MR. SKILLING: "--look over some of our computer systems, and we would take over Enron--or IBM's energy activities in North America."

What we did is we started discussions, and the game plan was very clear on that that they wanted to see from us value added in management of energy assets, and we wanted to see from them value added in the way that they would operate some of our systems. And as a result of that there's been a lot of work done the scope of the outsourcing information. Outsourcing on Enron's side has been narrowed very significantly.

And, Mike, what's the latest status, so we--

MR. : [Inaudible]

MR. SKILLING: Strictly the portions of EDS's systems. We are talking to them about outsourcing all of their energy activities at a number of North American facilities on the manufacturing side of IBM. So what we're trying to do is trying to find some way that we can do what we do best, and they can do what they do best. And then we're hoping to establish a little more of an alliance with IBM.

For example, they spend about \$3 billion a year on band width, and we're looking for ways that we might have some access to some of that business in our communications business. Now, they're a big company, a good company. We think there are ways that we can build linkages between the two, but each of those transactions, each of the portions of the transactions has to stand on their own. They have to create value, or we won't do them.

MR. SUTTON: I'll do two real quick ones here. First there was a question: "With the new building going up across the street, I'd like to revisit the subject of on-site day care. Among the reasons given in the past for not having on-site day care were, first, poor access, external exits, a specific amount of square footage dedicated at the facility. With the new building being design by Enron from the basement up, these are all **[no longer]** our concerns. So will there be a day care facility in our future with Enron?"

I think the answer I can give you is, yes, there will be. We're meeting now. We meet, I believe, next week again on the task force to get an update on this. I will tell you that Ken and Jeff and I are dedicated to getting a day care facility at Enron for working parents, children,

and that the idea is to try and do it the best possible way. We want it to be a world-class facility that will provide very good care. We're working on that right now, so give us a little time here, and with the plan out soon, I think they will accommodate those needs.

One other question, and then I'll--these guys have one more here. This one is: "Why doesn't anyone have a fragrance policy?"

(Laughter)

"Other companies are doing this. With the close confines on many floors, to be assaulted by an odor seems to be an invasion of my work space."

(Laughter)

I got to tell you something. I think that--I don't know--

(Laughter)

I know what I want to say, but I won't.

(Laughter)

So I think that if you've got a problem on your work space with an odor or someone with an odor, then you should talk to your manager or supervisor, and, with respect, they should ask that person to modify the condition. Okay.

(Laughter)

Some way or other. Thank you.

MR. LAY: I think you handled that very well, Joe.

(Laughter)

Let me, two or three here, real quick, real short, and then we're going to wrap up because I know we need to get back to work. But: "Is Enron ready for Y2K?" And the answer is that we've done everything reasonably possible to make sure we are ready for Y2K. Rick Causey has been heading a task force with representatives from throughout the company for about three years now, and we've looked at everything that could be looked at. We've tested everything at least twice if not three or four times now. It's even had Board supervision, including the chairman of our audit committee participating in a lot of that, and so everything possible--and we will be looking very carefully that night as 12:00 midnight strikes, starting off in the Pacific and moving across Asia, India, and, of course, Europe and through the Islands, and then eventually the United States. And we'll know a lot before it gets to the United States, let's put it that way.

But I think what you don't know is about all your other suppliers and customers and provider and so forth and

where they are. But I personally believe that there will be some problems, but they will be manageable problems for the most part.

You handled the fragrance policy. I'm not about to get back into that one.

"Why has it taken so long to convert to one badge to gain admission per building--"

VOICE: [Inaudible]

MR. LAY: Yeah, probably a lot of us would share with you that question. But apparently there are about 650 different locations which have to be changed. And, of course, to accept the new card. It has gone, I think, a little slower than any of us would have liked. I think we're getting close. I think all of the Enron buildings are going to be done here in another week or so, isn't it, Bill? Is that right? And all of 3 Alan, Bob, before Christmas.

So now the next question is will it all work? And we'll work on that.

"Could we have a wider variety of music when people call in and holding on the telephone?"

(Laughter)

Sure. And, I mean, the good news is I think we're just about to the point where we'll have Christmas music for

a while, don't we? So we'll start off Christmas music. But, no, I think that's a good point. Now, apparently, we have a lot of selection on different music, but apparently when you pick up, well, whatever plays just plays one and a half minutes and just kind of keeps re-going. So, I mean this is really a high technology thing. I mean, they've got this worked out.

You answered child care.

MR. SUTTON: Yes.

MR. LAY: And then, finally, the final question is: "How can we reduce the number of cigarette butts in Antioch Park? (ph)"

(Applause)

A serious question, and, certainly--of course, we have some containers over there now which we have provided the city and would again urge any smokers who do smoke over there to use those containers. We also paid for an outside cleaning service to kind of help keep it cleaned up. So it's not a matter that we're not trying to do our part. And part of this question also had to do with a cigarette or smoking cessation programs.

We do have smoking cessation programs. We do provide strong incentives for people to stop smoking. We

refer to different programs here in town, very effective programs, provide some incentives, even dollar incentives for people that do stop for a year, and again would encourage that people continue thinking about that. I've never been a long-time term smoker, so I can't speak to the difficulty of breaking that habit. I know it's incredibly difficult just talking to other people. But it's certainly something worth trying.

Let me just say that, again, as you've heard from all three of us, we're having a great year, again a great year because of all of you. We expect to finish it up in very fine fashion here over the next few weeks and, of course, enter the new millennium, the year 2000, in very strong shape.

Jeff has just laid out for you in very precise ways, obviously, we can see some erosion in stock price if we don't do the right things. But if we do the right things, there's no reason to think that we couldn't see a \$15, \$20, \$25 increase in stock price over the next 12 months or so. And, certainly, we, as a management team, are committed to try to achieve that, doing everything we can to put the strategies in place, et cetera, to make sure that happens.

And, finally, I will say from all of us,
certainly, we wish all of you a great holiday season. I
know it's a little early for this, but enjoy the holidays,
enjoy your families, enjoy your friends, and, of course,
obviously come back January 2nd or 3rd or 4th, whenever it
is, full of all kinds of vim, vigor, and vitality and
commitment to continue to make Enron the great company it
is.

Thank you.

(Applause.)

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